FET 93-11

Supersedes: 92-02

Foreign Economic Trends and Their Implications for the United States

August 1993

BURMA

Prepared by American Embassy Rangoon

U.S. DEPARTMENT OF COMMERCE
International Trade Administration

Available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.
Annual subscription $67.00 (foreign mailing $16.75 additional). Single copy $1.25.

BURMA - KEY ECONOMIC INDICATORS

(in millions of U.S. dollars unless otherwise indicated. Fiscal years run April 1-March 30)

	1990-91	1991-92	1992-93(P)
DOMESTIC ECONOMY			
Population (millions)	40.79	41.55	42.33
GDP at current prices	24,507	28,342	38,171
Per capita GDP at current prices (USD)	601	682	902
Consumer Price Index (1986=100)	233.7	301.8	330.3
Money Supply (M1, percent change)	53.8	34.4	25(est.)
PRODUCTION AND EMPLOYMENT			
Employed labor force (in thousands)	15,737	16,007	16,469
GDP at constant (1985-86) prices:			
-- kyat in millions	50,259	49,745	55,170
-- percent change	2.8	-1.0	10.9
Gov't. budget deficit (percent of GDP)	7.4	6.7	5.8
TRADE AND BALANCE OF PAYMENTS			
Exports (F.O.B.)	477.7	465.4	613.4
Imports (C.I.F.)	890.8	847.1	1020.0
Trade balance	-413.1	-381.7	-406.6
Current account balance	-439.2	-239.3	-112.7
External public debt (Rough estimate)	4,100	4,300	4,500
Debt service payments *	234.9	87.9	182.4
Debt service ratio (percent) *	49.2	18.8	29.7
Foreign exchange reserves	315.0	259.2	260.0
Exchange rate (kyat to USD 1):			
-- official rate	6.2	6.3	6.05
-- open market rate	62	88	105
U.S. - BURMA TRADE	**1990**	**1991**	**1992**
U.S. Exports to Burma (F.A.S.)	20.1	23.8	4.0
U.S. Imports from Burma (C.V.)	22.7	26.8	38.4
U.S. Bilateral Aid (grants)	0.4	.01	0.00**

Principal U.S. Exports (1990): Specialized machinery and parts.
Principal U.S. Imports (1990): Apparel, shellfish, gems and pearls, wood products.

Footnotes: P - Preliminary, data available as of June, 1993. This table is based largely on official Burmese statistics which are subject to substantial later revisions.

* Debt repayments were only partial.
** Disaster relief only.

UNCLASSIFIED

BURMA - KEY ECONOMIC INDICATORS

(In millions of U.S. dollars unless otherwise indicated. Fiscal years run April 1-March 30)

	1986-87	1987-88(p)	1988-89(e)
DOMESTIC ECONOMY			
Population (millions)	37.85	38.60	39.35
GDP at current prices	8,282	10,186	11,003
Per capita GDP at current prices(US$)	219	264	280
Consumer price index (1986=100)	103.7	126.5	155.0
Money supply (M1 - % change)	31.3	- 29.1	39.7
PRODUCTION AND EMPLOYMENT			
Labor force (in thousands)	15,505	15,813	16,036
GDP at constant (1985-86) prices:			
-- Kyat in millions	55,397	53,047	53,156
-- % change	- 1.1	- 4.2	0.2
Gov't budget deficit (% of GDP)	6.6	6.0	10.0
TRADE AND BALANCE OF PAYMENTS			
Exports (f.o.b.)	352.7	257.7	310.8
Imports (c.i.f.)	552.3	624.0	536.4
Trade balance	-199.6	-366.2	-225.6
Current account balance	-156.2	-165.1	-183.6
External public debt	3,648	4,257	4,500
Debt service payments	298.9	247.3	227.0
Debt service ratio (%)	84.7	95.9	73.0*
Foreign exchange reserves	35.3	55.4	127.3
Exchange rate (kyat to US$1):			
--Official rate	7.1271	6.5159	6.4582
--Open market rate	41	42	46
U.S. - BURMA TRADE	1986	1987	1988
U.S. exports to Burma (f.a.s.)	13.7	7.8	10.6
U.S. imports from Burma (c.v.)	15.3	11.8	11.6
U.S. bilateral aid (grants)	16.5	16.9	11.0

Principal U.S. exports (1988): medicines, aircraft parts, machinery and parts.
Principal U.S. imports (1988): apparel, wood products, shellfish.

Footnotes: p - preliminary, e - estimate. Data available as of October 11, 1989.
* 1988-89 debt repayments were only partial.

Sources: Central Statistical Organization, Ministry of Planning and Finance; International Monetary Fund; World Bank; U.S. Department of Commerce; U.S. Embassy Rangoon (Yangon); U.S. Agency for International Development.

630. 952
ok 1.

mkoo@fsmail.uwsp.edu

brazee@ux7.uiuc.edu

yanamada@~~sto~~ ~~students~~ uiuc.edu

I. SUMMARY

Burma's economic liberalization program began to bear fruit last year as the economy finally emerged from six years of negative or minimal real growth. Official statistics show a spectacular 10.9 percent real increase in gross domestic product (GDP) for the fiscal year ending March 31. Though most observers believe this figure to be overstated (Burmese statistics are always incomplete and subject to considerable later revision), the general consensus is that the economy improved considerably. Good weather, coupled with the incentives provided by the free market, produced bumper crops, including a near record rice harvest. Good news on the energy front came from the discovery of significant offshore natural gas reserves in the blocks held by Texaco and Premier. Total also began testing for production in its already proven gas bloc.

Economic reform continued over the past year with limited privatization of state economic enterprises through leasing to private business as well as an increase in private-public sector contracts. The government introduced a parallel currency, the foreign exchange certificate, which helps to circumvent the over-valued exchange rate. The first private and joint venture banks opened resulting in a modest upsurge in public savings and lending to private business.

Nevertheless, the government's failure to implement far-reaching structural reforms, such as devaluation, genuine privatization, reduction in subsidies, and establishment of an independent banking system, continues to hamper growth and discourage meaningful foreign investment. Moreover, despite modest improvements in roads and telecommunications, basic infrastructure is still woefully inadequate. With its mineral wealth, abundance of forest and fish, varied and fertile agricultural conditions, as well as a large and cheap labor force, Burma holds considerable potential for U.S. business. However, at present it is a difficult business environment, which is complicated further by the country's poor international political standing. Continued lack of access to most bilateral assistance and to concessionary financing is a further brake on development.

Last year U.S. exports fell sharply to $4 million, due primarily to a drop off in imported inputs for foreign oil company activity. At the same time, Burmese exports to the United States, led by garments, rose to $38 million. The few U.S. companies active in Burma are essentially limited to those engaged in oil exploration under production sharing contracts, subcontracting in the energy sector, a fishing/processing joint venture, beverage production projects, consulting contracts and

trade. Official relations between the United States and Burma have been cool since the 1988 military takeover after which the United StaTES and other major donor countries suspended new foreign assistance. Burma has been decertified as eligible for U.S. aid because of inadequate narcotics suppression efforts and has been suspended from The U.S. Generalized System of Preference (GSP) program for worker rights violations. Any improvement in bilateral relations depends on the Burmese Government's allowing a more representative political process and taking positive action to improve its human rights and narcotics control records.

II. CURRENT ECONOMIC SITUATION AND TRENDS

BACKGROUND: After 26 years of Ne Win's socialist economic policy, which nearly bankrupted this resource rich country, the Burmese government took the first steps toward loosening economic control in September 1987 by opening domestic trade in rice and other grains to the private sector. However, the benefits of this welcome change were undercut by a surprise demonetization of all higher value currency notes, without compensation. The economic havoc created by this move helped precipitate the following year's widespread and violent disturbances. During the period of unrest, economic activity was at a near standstill for many weeks, and many factories were destroyed or severely damaged. In mid-September 1988, the military took direct control, establishing the State Law and Order Restoration Council (SLORC) as the ruling authority and sharply repressing all oppositionists. All foreign aid projects in Burma were stopped for some time after the military takeover, and virtually no new bilateral foreign aid has been approved since then.

The SLORC addressed Burma's economic problems by declaring an end to socialism and announcing an open-door economic policy under which the private sector could engage in most economic activities. A new foreign investment law allowed foreign investments, including wholly foreign-owned ventures, for the first time in decades. Border trade with the People's Republic of China, Thailand, India, and Bangladesh was legalized. The government granted foreign companies offshore fishing concessions and logging concessions along the Thai-Burmese border, and signed production sharing contracts for onshore and offshore oil exploration by foreign oil companies.

Despite previous state control of the economy and the continued maintenance of state enterprises, the private sector is responsible for over 70 percent of GDP. Though much of this represents agriculture, fields such as light manufacturing and transportation are largely in private hands. Since liberalization, the private sector is in theory free to engage in all but a few proscribed areas of economic activity, e.g., energy production, teak, and rice exports. In reality, lack of capital and uncertainty about the political and economic

situation limits private investors' scope for involvement in large-scale operations. Recently, the government moved somewhat further toward privatizing state enterprises by offering facilities to the private sector on a one-year rental basis. To date about one dozen enterprises have been leased, primarily in food and beverage industries. Additionally, state factories are increasingly entering into production sharing contracts, whereby a private firm provides raw materials in exchange for a share of production. In a few cases, state agencies have taken a step toward commercialization by contracting some services to private companies. For example, the national railways -- a leader in contracting services to private companies -- has an arrangement with a private trucking company to provide point-to-point freight forwarding service. It has also allowed a private firm to run its own train on one popular route and employed a private caterer to provide food and beverage service.

State factories are also available to foreign investors through joint ventures with state enterprises. However, only a few factories which had been built or re-tooled with outside assistance have been attractive to foreign firms. Several foreign garment companies have also taken over state-owned facilities, but these required at a minimum hundreds of thousands of dollars of new equipment and/or renovation. In many cases, the state-owned facilities are in such poor state that renovation is more costly than building anew.

ECONOMIC PERFORMANCE: (NOTE: The Burmese fiscal year runs April 1 to March 31. In studying the Burmese economy, it should be kept in mind that official statistics are unreliable and may give a misleading picture of the real economic situation. For example, GDP statistics do not cover extensive informal market activity, and the highly overvalued official exchange rate exaggerates the dollar values of GDP and per capita income. Furthermore, official data for 1991/92 and 1992/93 are still preliminary and subject to substantial future revision.)

In the fiscal year which ended this past March, the Burmese economy made a stunning recovery from years of slow or negative growth. According to official statistics, GDP soared 10.9 percent. The previous year's figure (FY 1991/92) was revised downward from a 1.3 percent rise to a 1 percent drop in output. (Nominal GDP was actually revised upward, but the implicit GDP price deflator was increased so that the real, i.e, inflation adjusted, GDP was lower than the figure provided last year.) Real GDP has finally caught up with the level obtained in 1986/87. Real total investment in 1991/92 rose 3.6 percent, against an earlier reported 6.1 percent. In 1992/93 the increase was similar at 4.1 percent. In line with economic growth, real consumption rose 10.3 percent in 1992/93, as opposed to the previous year's 4.9 percent drop. On a per capita basis real consumption was up 8.3 percent.

Nominal or unadjusted GDP in 1992/93 reached kyat 230.9 billion or $38 billion at the official exchange rate. Using this estimate, the per capita income of Burma's 42 million people was $902. The artificial exchange rate vastly inflates the dollar value of per capita income, but official statistics also do not capture the considerable contribution of the informal economy to overall income.

Boosted by good weather, the agricultural sector, which accounts for 40 percent of GDP, showed a very strong comeback last year with a 15 percent increase. Farmer responsiveness to strong prices and some additional inputs also helped to push the rice harvest up to a near record 14.9 metric tons (MT) by official estimates. This figure includes some 500,000 MT of summer rice which was not yet harvested when the fiscal year ended. It also contrasts sharply with the 1991/92 revised 3.0 percent decline in agricultural production, which reflected a decreased rice harvest and poor oilseeds crop. The major export crops, beans and pulses, were 20 percent. The lucrative oil seeds (peanuts and sesame) were also strong after the previous year's drought-afflicted crop. These developments should further bolster farm incomes, which have been on the rise as the agriculture sector has been liberalized. Moreover, during the past year, the Ministry of Agriculture has invested heavily in irrigation, tractors, and fertilizer in order to expand second cropping of rice. Though this should help to secure domestic supplies and even out seasonable fluctuations in rice prices, the inferior quality of Burmese milled rice and transportation difficulties will frustrate efforts to increase exports.

Growth in the forestry sector has begun to level off as activity in Thai timber concessions has begun to decline. Many of their contracts were not renewed, and the most accessible logging areas inside Burma have already been exploited. In 1991/92, the industry recorded a 2.6 percent drop in output rather than the 5.1 percent estimated earlier, while last year's growth was 5.9 percent.

The previously ailing processing and manufacturing sector rebounded with a reported 13.7 percent increase in output. This follows a revised 4 percent drop the previous year. Small cottage industry, particularly food and beverage production, probably contributed significantly to last year's improved performance. In state industry, some rationalization of production and management and increased cooperation with private industry helped to boost output. However, state-owned enterprises continue to suffer from inaccessibility to foreign exchange for spare parts and other inputs. Their chronically low rate of capacity utilization is probably well below 40 percent.

According to official statistics, the mining sector recovered from its 3.6 percent loss in 1991/92 with a 15 percent gain this past year. For almost every category of minerals, the previous year's figures were revised sharply downward from those reported earlier. Crude oil production, included in the mining statistics, was reportedly up 24 percent to 6.8 million barrels. This was nonetheless insufficient to meet needs, forcing a once oil self-sufficient nation to import nearly 1 million tons of crude last year. Natural gas production also increased 33.8 percent to 42520 million cubic feet. In addition to the natural gas discovery by Royal Dutch Shell in early 1992, which was turned over to the Burmese when the Dutch company left Burma in early 1993, the domestic oil and gas enterprise (MOGE) drilled several more successful wells in the same region. However, at the same time production from older wells has declined.

All of the original foreign oil companies exploring onshore with the exception of AMOCO and Yukong left at the end of their three-year contracts. The two remaining companies signed one-year extensions. Two other American companies, Apache and Santa Fe, which concluded production sharing contracts with MOGE in the summer of 1992 are currently evaluating seismic data. Significant natural gas reserves have been found on the offshore concession held by Texaco/Nippon/Premium. If the decision is taken to develop this reserve, presumably the gas will be sold to Thailand via submarine pipeline. The French company Total, which was awarded a contract to develop the large natural gas reserve in the Gulf of Martaban, is completing test drilling this year. If, as expected, Total goes forward with development, a pipeline would be built to Rangoon to supply about 100 million cubic feet of gas for domestic needs. The rest would be piped to Thailand. The Thai petroleum authority is actively negotiating with Total and its partner Unocal, on the gas sale. The gas would come on-stream late in this decade.

The electricity situation improved somewhat last year with the commissioning of the newly refurbished Lawpita hydropower plant in Loikaw. Primarily due to the additional hydropower, electric power generation was up 128 million kilowatt hours (KWh) to 1805 million KWh. Total installed electric power capacity was increased 28 megawatts, but old equipment kept power losses high at 34 percent of total generation.

Though the government continued its campaign to widen roads, beautify towns, and develop resettlement areas, the rate of new construction slowed to a more reasonable 3.8 percent. However, the previously reported 9 percent increase in construction activities in 1991/92 was revised upward to 17.2 percent. Once again, next year construction is slated to fall 17.7 percent. Transportation activity, though still hampered by fuel rationing and shortages of vehicles in working condition,

increased 3.9 percent. Improvements in communications services continued with more outside telephone lines and the installation of some automatic exchanges throughout the country. The government awarded a contract to Ericsson for a cellular telephone system in Rangoon. Chinese-built ground stations for satellite transmitted international phone lines will greatly increase the availability of direct dialing, easing the current difficulties in completing overseas calls. Smaller communities have been given the green light to independently raise their own foreign exchange for construction of phone systems. Though the Myanmar Post and Telecommunications agency (MPT) will operate these systems, the communities are free to select the contractor from among any vetted by MPT. In a similar vein, the MPT offered Rangoon dwellers a chance to buy a new telephone line for $1,100 in hard currency. With the funds collected from this very popular offer, the MPT contracted with Sumitomo to install an additional 14,000 phone lines.

FISCAL AND MONETARY DEVELOPMENTS: The government appears to have maintained soft budget constraints, but managed to keep spending from getting out of hand. The practice of using supplementary budgets at the end of the fiscal year went into its fourth year; this time equalling nearly 24 percent of the original budget. However, increasing output decreased the budget deficit in relative terms to 5.8 percent of GDP from 6.9 percent the previous year. The central government appears committed to holding down spending in the current fiscal year, but given the lack of administrative spending controls, it will be hard-pressed to do so. Government deficits are financed mainly by borrowing from the state banking system and, ultimately, by printing more currency. Continuing the trend of monetary expansion in which currency in circulation more than tripled during the three years following the September 1987 demonetization, the money supply increased about 34 percent in 1991/92 and an estimated 25 to 30 percent the following year. Inflation moderated to approximately 30 percent over the fiscal year. However, recent sharp increases in retail rice prices -- the staple food of most of the population -- may be partially offsetting those gains in the current year.

Limited banking reforms continued with the licensing of several more quasi-private banks and the entry of the first foreign bank. Thai military bank opened a representative office primarily to handle bilateral trade. Indo-Suez, which is already active as a business office, is expected to receive approval to open a representative office shortly. Several other foreign banks, including Krung Thai, have expressed serious interest in opening offices here. However, the highly skewed official exchange rate, among other factors, makes it unlikely any will begin full banking services soon. Interest rates on savings accounts remain fixed at strongly negative rates. Though the newly licensed banks operate under the same restrictive rules

as the state banks, their more efficient and friendly service has attracted new customers pushing up total public savings. Lending to the private sector has increased, but is still very limited. There is no venture or development capital available for start-up enterprises.

In February 1993, the Burmese Government introduced a parallel currency, the Foreign Exchange Certificate (FEC). Fully legal for Burmese nationals to hold, FECs are equivalent to U.S. dollars for use inside Burma only. Burmese merchants and private restaurant and hotel owners are free to set prices in FEC at any effective exchange rate. Initially, the government intended FECs primarily to ease the burden of the overvalued exchange rate on tourists, however, it now allows all resident foreigners to purchase and use FECs. Use of FECs has spread widely and represents nearly a de facto devaluation.

THE EXTERNAL SECTOR: According to government data, the economic boom was reflected in external trade with official exports up 26 percent to $613 million. Imports rose 15.6 percent to $1.02 billion producing a trade deficit of over $400 million. Forestry products, mainly logs, remained the largest single foreign exchange earner (about one-third of total exports), with the remaining legal exports consisting primarily of foodstuffs and other unprocessed goods.

The total volume of legal rice exports was up about 10 percent to 199,188 MT, but total earnings dropped 3 percent to $38.5 million. (Illegal rice exports outside government control may equal at least half of legal sales.) Burmese per acre rice yields, despite the lack of fertilizer, are among the region's highest, but poor milling, transportation, and storage problems and artificially high official export prices constrain expansion of exports. On the other hand, Burma (primarily in the private sector) has been very successful in exporting beans, pulses and oilseeds. This export sales helped to finance the recent influx of vehicles, electronic consumer goods, and building materials.

Burma's chief export markets are China, India, Thailand and Singapore, while its most important import sources are Japan, China and Singapore. Though official statistics now capture some of the previously illegal border trade, much of Burma's commerce with neighboring countries does not flow through official crossing points and thus goes unrecorded. Illegal and undocumented exports of narcotics (Burma is the world's largest opium producer), gems, and jade are also substantial.

On the import side, the majority of goods are motor vehicles, consumer electronics and electrical appliances, and capital equipment for industry. As for border trade with neighboring countries, the full range of consumer items and small inputs for private industry, i.e., inks, paper, dyes, and plastic pellets, are imported.

The private sector now accounts for some 50 percent of legal exports and imports. While this is a positive sign of a market economy development, an unwanted side effect is an increasing shift from capital to consumer imports. In an attempt to control the use of scarce foreign exchange, the government has experimented with various schemes to require importers to import a certain portion of necessary goods. However, these have had scant success.

Though official figures have not been made public, Burma's total foreign debt is estimated at over $4 billion. While most of the debt is highly concessionary, Burma's weak trade position made debt servicing difficult. Arrears began to build up in 1988 and may now exceed $1 billion. Foreign exchange reserves have remained at approximately $260 million according to official statistics for the last few years. Saddled with a large trade deficit along with heavy arrears and with scant foreign aid inflows in sight, Burma continues to have a weak external financial position.

In 1992/93 new foreign investment picked up, but paid-in capital decreased. As of April 1, 1993, total authorized foreign capital investment was $850 million, paid-in capital was $625 million according to official statistics. Except in the oil sector, which accounted for at least $370 million, most foreign companies refrain from committing more than the amount of capital needed for immediate use. The joint ventures concluded during the past year, including several in the garment industry, trading, fisheries, and hotels, were predominately with Asian countries. One of the most interesting foreign investments of the past year has positive implications for the development of tourism and transportation infrastructure. Myanmar Airways, the beleaguered domestic carrier, signed an agreement with Hisonics of Singapore to create a new international airline. With one leased Boeing 757, Myanmar International expects to begin service on Myanmar's current routes -- Bangkok, Singapore, Jakarta, and Hong Kong -- in August 1993. Future plans include expansion to China and other cities in the region. An added benefit to this joint venture is the freeing up of Myanmar Airways' current fleet of five Fokker 27s and three F28s for domestic routes.

In further support of tourism promotion, Burma is renovating the Rangoon airport, including the recent establishment of a duty free-store operated by a Singaporean company. However, planned structural improvements, including runway extension, were temporarily scuttled by the cessation of bilateral and multilateral assistance. The government is also planning to build an international airport in the country's second city, Mandalay, in central Burma. With the opening up of tourism to private industry, many small tour companies and guest houses/inns have sprung up in Rangoon and at key tourist destinations.

OUTLOOK FOR 1993/94 AND BEYOND: Absent more dramatic economic reform or a major rice crop failure, the Burmese economy will probably continue to grow modestly over the next year. Foreign investment will trickle in, especially from small Asian investors (including former Burmese citizens now resident abroad in Hong Kong, Singapore, and the United States); major investors will probably not yet be interested. This picture could change dramatically in the latter part of the decade when gas comes on line from the Total and/or Texaco concessions. The influx of petrodollars, as well as the solution to energy needs, will allow the Burmese to pursue major structural projects which have not been possible in the past due to lack of foreign exchange and access to concessionary financing.

Agriculture will continue to be the most important economic factor in the near term. Barring unforeseen natural disasters, the rice and oilseeds crops could again reach record levels this year. The government is also pursuing an aggressive policy to promote double cropping of rice. This past year, some 300,000 acres were sown with a second crop. Next year the government is planning to extend the program to 4 million acres, though a more realistic target is 1 million. To head off political instability caused by increased rice prices, the government is expected to continue to maintain a monopoly over rice exports for at least the next one to two years.

In recognition that it cannot provide the irrigation, fertilizers and other inputs needed to raise the level and quality of agricultural production, the government has made certain policy changes to attract capital investment from domestic and foreign sources. Private and foreign investors are now permitted to receive up to 5,000 acres of land for 30 years for agricultural development. The Ministry of Agriculture has also announced that it is willing turn to over its approximately 200 state farms to qualified private sector investors. So far, the government has granted 52,298 acres of fallow lands to 296 private firms or individuals for agricultural investments.

On the political front, the government made some positive moves toward liberalization, including the release of about 1,000 political prisoners and convening a national convention to draw up guidelines for a new constitution. However, these measures are not sufficient for former donor countries to resume bilateral aid suspended after the 1988 disturbances were violently suppressed.

III. IMPLICATIONS FOR THE UNITED STATES

BILATERAL RELATIONS: Since the September 1988 military takeover, relations with the United States have been cool due to U.S. criticism of serious human rights abuses and political repression. In late 1988, the United States suspended all non humanitarian aid to Burma and, in March 1989, certified Burma as ineligible for U.S. foreign assistance on the grounds of Burma's failure to cooperate on antinarcotics matters. In April 1989, the United States suspended Burma's eligibility for duty-free exports to the U.S. market under the Generalized System of Preferences (GSP) program because of the lack of internationally recognized worker rights in the country. In July 1991, in compliance with a provision of the 1990 Customs and Trade Act calling for economic sanctions against Burma, the Administration decided not to renew the bilateral textile agreement which expired at the end of 1990.

The U.S. Government has welcomed the modest steps toward political liberalization taken by the Burmese Government over the past year, including convening the national convention for drawing up a constitution and releasing over 1,000 political prisoners, but more substantive measures are necessary before U.S. policy toward Burma will change significantly. The United States hopes for an early resolution of strains in the bilateral relationship and a return to closer relations that would benefit both countries. Progress toward the transfer of power to a democratically elected government, the restoration of basic human rights, the release of imprisoned opposition leaders, and meaningful cooperation in drug eradication efforts are essential before a resumption of normal bilateral ties will be possible.

OUTLOOK FOR U.S. BUSINESS: U.S. exports to Burma fell in 1992 to $4 million from $24 million in 1991 due primarily to the reduced demand for inputs related to foreign oil exploration activity. In the very near term, prospects for U.S. exports remain limited mainly because of the restricted availability of foreign exchange for import purchases. Local private sector entities have limited legal access to foreign exchange except what they can earn by exporting, and state-owned enterprises depend on scarce foreign exchange allocations from the central government. However, Burmese Government agencies are increasingly interested in barter and countertrade to procure needed machinery and equipment. U.S. companies willing to deal on those terms definitely have an advantage. The most widely available items for countertrade are shrimp, fish, wood, and rice.

On the import side, U.S. imports from Burma rose to $38 million in 1992 (largely apparel, shellfish, gems and pearls, and wood products). This figure mainly reflects an increase in garment exports produced by joint ventures with foreign firms. The denial of GSP benefits to Burmese products has not affected most U.S. imports -- Burmese goods entering the United States under the GSP program in 1988 were valued at less than $250,000. Though the U.S. decision not to renew the bilateral textile agreement does not prohibit exports from Burma, the removal of quotas and the current ability to place an unnegotiated freeze on textile sales to the United States may have a depressing effect. (Importers of Burmese goods should also be aware that the U.S. Customs Service requires that the name "Burma" be used for the purpose of identifying country of origin on U.S. Customs forms.)

BEST PROSPECTS

Telecommunications: One of the most attractive opportunities for U.S. companies is in the telecommunications field. With currently one of the lowest per capita telephone ownership levels in the world, Burma is keen on rapidly extending telephone service. Myanmar Posts and Telecommunications will require exchange facilities, switching, distribution network, subscriber equipment, cables, telephone sets, long distance facilities, etc. Local communities are also raising their own funds to install telecommunications systems.

Mining: With Burma's treasure chest of mineral wealth, much of which is not yet fully explored, the mining sector holds considerable potential for foreign investors. However, despite a stated goal to attract foreign investment, the mining ministry has been reluctant to enter into large ventures with foreign firms. The promulgation of a new mining law, which is currently in the final drafting stages, may ease the situation. In the past, U.S. firms have successfully competed for tenders to supply equipment, machinery, and spare parts in Burma's mining sector. As reliance on tenders declines, local representatives play a greater role in helping U.S. companies in this field. In the past year, foreign investment was permitted for the first time in the jewelry-making industry. One Thai company, VES, has entered into a joint venture in this field. Similarly, a Japanese firm, Niino International Corporation, signed a production sharing contract for the extraction and marketing of pearls. Market potential for oil and gas equipment, machinery, and spare parts are still significant for the U.S. firms.

Wood-based industries: In order to discourage export of hardwood in log form, the Burmese Government is seeking to encourage the development of wood processing industries. Burma has a wide variety of high-quality tropical hardwoods, but has poor saw milling, furniture making, and wood processing facilities. Several Asian firms have formed joint ventures with the state's Myanmar Timber Enterprise to refurbish and manage sawmills and plywood factories.

<u>Agro-industry</u>: In its promotion of double rice cropping, the Burmese Government is undertaking irrigation projects and purchasing farm machinery and fertilizers to the local farmers. These items, as well as pesticides and high-quality seeds, could provide export potential. To promote such imports, the Burmese Government has removed import duties on most agricultural inputs. Farmers themselves have more disposable income to spend on improving output as rice prices are high and beans and pulses have become a major export items. With Burma's fertile soils and varied climatic conditions, the potential for development of a food processing industry is extremely good.

Development of natural gas will present a number of obvious business opportunities for U.S. firms. In addition to needing oil field and pipeline-related equipment and services, the Burmese will be seeking to build power generation facilities to make use of the available energy supplies. U.S. companies interested in this market would be well advised to begin to investigate the opportunities soon. Potential U.S. suppliers of goods and services for oil and gas exploration and development should contact concession companies and the Myanmar Oil and Gas Enterprise directly to inquire about possible sales.

Though the Burmese Government still seeks suppliers through international tenders, this method of procurement has declined in importance recently, in part due to the cessation of most international development assistance projects. Experienced local businessmen advise potential U.S. exporters to establish contact with relevant ministries directly or through local representatives. Tenders are reported by the Embassy and published by the U.S. Department of Commerce in the "Economic Bulletin Board" and the "Commerce Business Daily." The district offices of the Commerce Department also receive daily leads and have them on file for the public.

Burma's new laws on foreign investment provide potentially broad scope for U.S. involvement. Foreign investment may be wholly foreign-owned or -- with minimum 35 percent foreign ownership --in joint ventures with local private companies, state-private sector joint venture corporations, or state-owned economic enterprises. In certain sectors, such as oil and gas or metal mining, a foreign investment must take the form of a joint venture with a state-owned enterprise. The Burmese Government is also reportedly drafting new regulations which will ease foreign investment in mining and agriculture. Buy back arrangements are another option; many existing and under utilized production facilities could be upgraded by a foreign partner to produce for export on a buy back basis.

Foreign investors are generally required to pay local staff salaries, rents, telephone, and utility charges in foreign currency. Foreign currency conversions to pay kyat-denominated local expenses must be made at the official exchange rate, which is grossly overvalued and inflates the total cost of doing business in Burma. However countertrade and other arrangements to ease the effect of this requirement are often possible.

ASSISTANCE TO U.S. BUSINESS: Country specialists for Burma in the Departments of Commerce and State in Washington are valuable initial sources of information on business conditions and possibilities. Interested U.S. companies may also correspond directly with the Commercial Attache of the U.S. Embassy in Rangoon (Yangon) (Box B, APO AP 96546; telex: 21230 AMBYGN BM). The Commercial Section can assist U.S. companies in the tender process by purchasing and forwarding government tender documents on request to help U.S. firms meet the short deadlines generally given. Business visas should in most cases be arranged directly through Burmese Government agencies or companies, but the Commercial Section will attempt to assist as needed. Visitors to Burma are welcome to contact the Commercial Section which will arrange meetings with appropriate Embassy personnel to discuss local conditions and their business interests.

☆U.S. Government Printing Office : 1993 - 341-888/80001